

Financial Management Policies

Operating Budget Policies:

1. The City will strive to adopt an annual General Fund budget in which expenditures do not exceed projected revenues.
2. The City's goal for Enterprise funds is to establish rates that provide for self-sufficiency.
3. The Operating Budget which includes the General Fund and the Enterprise funds shall be balanced in total. The Water and Sewer funds will balance each other with any excess held as a contingency. The General Fund and all other Enterprise funds shall balance in total with any excess being held as a contingency in the individual fund, where applicable.
4. *The Operating Budget is adopted at the fund level.* Each department and division prepares its own budget for review by the Mayor. Current policy requires departments to request separate enhancements for any amounts increasing total department budgets. Realignment of appropriations without an overall increase is allowed unless it involves eliminating an established program, which would require the Mayor's approval. The budget is approved in the form of an appropriations ordinance after the Council has held advertised public hearings. During the year, it is the responsibility of the Mayor to administer the budget. The legal control which the budget ordinance establishes over spending is set up under Generally Accepted Accounting Principles (GAAP). The Mayor has the authority to transfer budgeted amounts within departments in any fund, but changes in the total appropriations level for any given fund can only be enacted by the Mayor and Council.
5. Budgetary control is maintained in the General, Special Revenue, and Enterprise Funds at the fund level within department by the encumbrance of estimated purchase amounts prior to the release of purchase orders to vendors. Purchase orders which result in overruns of balances are not processed until sufficient appropriations are made available through approved intrafund transfers.

6. A financial system will be maintained, on an ongoing basis, to monitor expenditures and revenues.

Capital Expenditure Program Policies:

1. The development of the capital improvement program will be coordinated with the development of the operating budget. This document provides for improvements to the City's public facilities for the ensuing fiscal year and five years thereafter. The first year of the plan establishes a capital budget for the new fiscal year. The remaining five years serve as a guide for use in determining probable future debt issuance needs and operating cost impacts.
2. *The Capital Budget is adopted at the project level.* Capital improvement expenditures are accounted for in the Capital Projects Fund and are funded by a variety of sources.

Capital Financing and Debt Management Policies:

1. Long-term borrowing will not be used to finance current operations or normal maintenance.
2. All debt issued, including by lease-purchase methods, will be repaid within a period not to exceed the expected useful lives of the improvements financed by the debt.
3. The City will not issue tax or revenue anticipation notes.
4. The City will not issue bond anticipation notes.
5. The City will strive not to issue bonds more frequently than once every two fiscal years.
6. The City will maintain its net bonded debt at a level not to exceed ten percent of the assessed valuation of taxable property within the City.

Financial Management Policies

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7. Annually, a six-year Capital Improvements Program will be developed, analyzing all anticipated capital expenditures by year and identifying associated funding sources.

8. The Capital Improvements Program will incorporate in its projections of expenditures and funding sources any amount relating to previous year's appropriations but which have yet to be expended.

9. The first year of the six-year Capital Improvements Program will be used as the basis for formal fiscal year appropriations during the annual budget process. Appropriations made in prior years for which expenditures have not been increased or projects completed will be reevaluated and incorporated into appropriations for the new fiscal year.

10. In an effort to provide critical capital projects, while simultaneously keeping debt issuances to a minimum, the City pursues a policy of earmarking excess General Fund balance for the purpose of providing pay-as-you-go funding for the CIP. The City strives to maintain a General Fund balance at a level equal to 25% of annual revenues. Amounts in excess of this target are eligible to be used as "pay-as you-go" funding for the CIP.

Cash Management/Investment Policies:

1. The City maintains an investment pool that is available to all funds except the Pension Trust Fund and the Internal Services Fund, which hold investments separate from other City funds and control their own cash transactions.

2. Except for investments in the Pension Trust Fund, the City is authorized to invest in obligations of the U.S. Treasury, agencies and instrumentalities, bankers' acceptances, repurchase agreements, certificates of deposit, and the state's local government investment pool. Contractually, the City's Pension Trust investment managers are restricted to investments in common stock, public

bonds, real estate and money market investment funds.

Accounting, Auditing, and Financial Reporting Policies:

1. The basis of accounting within governmental fund types used by the City of Annapolis is modified accrual as well as the "current resource measurement focus." Under this method of accounting, revenue is recorded when susceptible to accrual, i.e., when measurable and available for the funding of current appropriations. All enterprise funds and the Pension Trust Fund follow the accrual basis of accounting, as well as the capital maintenance measurement focus. Revenues are recognized when earned, as billed and unbilled, and expenditures are recorded when incurred.

2. The City places continued emphasis on maintenance of an accounting system which provides strong internal budgetary and accounting controls designed to provide reasonable, but not absolute, assurance regarding both the safeguarding of assets against loss from unauthorized use of disposition and the reliability of financial records for preparing financial statements and reports, such as the budget and the Comprehensive Annual Financial Report (CAFR), as well as maintenance of accountability of assets.

3. An independent audit of the City of Annapolis is performed annually.

4. The City of Annapolis issues a Comprehensive Annual Financial Report (CAFR) in accordance with Generally Accepted Accounting Principles (GAAP) outlined by the Governmental Accounting Standards Board (GASB).

The City's most recent bond ratings, received in connection with general obligations issued in 2002, are "Aa2" issued by Moody's Investor Services, a Standard and Poor's rating of "AA" and a Fitch rating of "AA+"; all three are considered outstanding ratings.

Major City Goals

Annapolis is proud of its historic charm, its status as a major tourist and maritime attraction, and its desirable residential neighborhoods. Several years ago, as the City underwent its budget preparation process, attention was given, in the form of a strategic planning session, to the development of the City's mission, vision, goals and objectives. Elected officials, department heads, and key personnel joined forces to formulate and set forth statements of vision and mission for the City.

The current City Council has not adopted, nor developed, any formal goals, objectives or priorities for FY 2005, nor does it have a formal vision or mission statement. Until it does, the mission and vision identified by the prior Council represents the City's goals and objectives.

Vision Statement

In the year 2005, Annapolis is a city in which essential services are delivered in the most cost effective, efficient and responsive manner. It is a multi-cultural city in which the diversity of citizens is celebrated; where the past is recognized, the present acknowledged, and future under control. The City provides a safe and secure environment that is healthful, attractive and a satisfying place in which to work, visit and play; where all citizens are treated fairly by all agencies of the City government that promotes open access to government and encourages civic participation. It is a viable business community and its City government operates as a team, with respect for each other and all its citizens.

Mission Statement

The mission of Annapolis is to provide and maintain adequate public facilities and services to support the residential and business communities, and enhance environmental quality, public health, security, and safety in a cost efficient and effective manner that recognizes the restrictions of dwindling resources balanced against citizen demands. It formulates City policies, organizational goals and administrative objectives for the entire community.

To achieve the City's mission, broad goals and objectives must be established. The first step taken in the strategic planning session towards developing formal goals and objectives was the identification of the stakeholders that Annapolis serves who must be considered in establishing these goals. Eleven categories of stakeholders, and their needs, desires and expectations of their city government were identified; they are listed below and are the foundation of the City's broad goals and objectives soon to be formally established.

Stakeholders Served by Annapolis:

1. Citizens: Efficient and effective municipal services: specifically, good leadership and cooperation from elected officials; safe, secure and healthful housing; the best emergency medical services available; good schools; lower taxes and better employment opportunity; maintenance of the diversity of citizens and cultural activities; and confidence in the future.

2. Businesses: Consistent leadership from the Mayor; fair and equitable treatment by City officials; outreach to and respect of business owners; efficient, predictable and responsive government; confidence in the viability and stability of City government; good markets; consistent zoning; and diversity of business.

Major City Goals

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3. Tourists: Efficient shuttle system that will help reduce automobile traffic downtown, yet still make tourists feel welcome; better access to the City; better signs in general and bigger signs for parking; more diverse cultural activities; and an improved atmosphere for the boating and maritime community.

4. County: A consistent formula for the calculation of the Tax Differential; a new Wastewater Treatment Plant agreement; joint development strategy; elimination of overlapping recreational programs; more interaction between City and County council members; a regional solution to solid waste issues; better cooperation and efforts to receive a bigger share of federal and state revenues that enter at the county level.

5. Other Government Agencies: Fair distribution of taxes and revenues; coordination of policies and procedures and cooperation for the benefit of all citizens; open communication and joint planning of growth and expansion; improved relationships and continued cooperation with the Naval Academy concerning the Fourth of July fireworks; continued independence.

6. City Employees: A sense of direction and consistent leadership; improved communication between administration and staff; consistent interpretation of personnel rules and regulations; respect and fair and equitable treatment of all employees; more training and education, coupled

with improved chances for advancement; a sense of pride and security in belonging to a respected organization and the accompanying increased motivation and initiative.

7. Special Interest Groups: Access to information; the opportunity to present their views to the City government, knowing that they will be treated fairly and equitably; City policies effectively communicated to the special interest groups; open meetings, more public hearings; and the lowest possible taxes.

8. State: Keep state agency offices in Annapolis; ensure that the State recognizes and pays for services provided by the City; more emphasis on the fact that Annapolis is Maryland's State Capital; responsible managed community and economic growth; attraction of new business; and continued maintenance of tourism.

9. Non-profit Organizations: Recognition by the City of the benefits brought to Annapolis by the presence of non-profit organizations.

10. Historic District: Responsible protection and maintenance of the City's heart; recognized importance as a tourist attraction; and less conditional use controversies.

11. Taxpayers: Cost efficient services; fair return on invested funds; better communication with City elected officials and administration; continued diversity of City residents and businesses.